

**GOVERNOR'S CABINET SECRETARIES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2003, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting system;
- no material weaknesses in internal controls; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

AGENCY HIGHLIGHTS

The audit of the Governor's Cabinet Secretaries covers the following agencies:

Secretary of Administration,
Secretary of Commerce and Trade,
Secretary of Education,
Secretary of Finance,
Secretary of Health and Human Resources,
Secretary of Natural Resources,
Secretary of Public Safety,
Secretary of Technology, and
Secretary of Transportation

The Cabinet Secretaries receive the majority of their funding through an appropriation from the General Fund of the Commonwealth. The Secretaries of Administration, Finance, Public Safety, and Technology only receive General Funds. The Secretaries of Commerce and Trade, Education, Health and Human Resources, and Natural Resources receive both General and Special revenue funds. The Transportation Trust Fund exclusively funds the Secretary of Transportation's operations. The following sections summarize the purpose and funding of each of the Secretaries. The format of the information varies based on the Secretaries' funding sources.

Secretary of Administration

The Secretary assists the Governor with the management and direction of the administration of state government. Within the Office of the Secretary of Administration is the Division of Selected Agency Support Services. The Division provides financial and administrative support to the: Office of the Governor; Office of the Lieutenant Governor; Offices of the Governor's Cabinet Secretaries; Office of the Secretary of the Commonwealth; Charitable Gaming Commission; Citizen's Advisory Committee; Commission of Virginia/Israel Advisory Board; Interstate Organization Contributions; Office for Substance Abuse Prevention; Virginia Liaison Office; Virginia Racing Commission; and Virginia Veteran's Care Center Board of Trustees.

The Secretary of Administration receives its funding from General Fund Appropriations. The summary and detailed financial information for fiscal year 2003 is below.

		<u>General Fund</u>	
Original appropriation		\$ 930,704	
Adjustments		<u>23,768</u>	
Final appropriations		954,472	
Net expenses		<u>951,705</u>	
Unexpended balance		<u>\$ 2,767</u>	
Original appropriation per Chapter 899			\$ 930,704
Reductions per Chapter 1042			<u>(78,744)</u>
Appropriations per Chapter 1042			851,960
Adjustments:			
Supplemental appropriation for:			
Unanticipated expenses:			
Operations		118,376	
Mandated changes:			
Bonus funding	14,655		
Health insurance premiums	8,989		
VSDP rate increase	3,117		
Management savings	(5,468)		
Retirement contribution rate reduction	(27,986)		
Group life insurance savings	(5,280)		
Retiree health credit reversions	(2,090)		
VSDP rate reduction	(1,543)		
Other	<u>(258)</u>	<u>(15,864)</u>	
Net supplemental appropriations			<u>102,512</u>
Adjusted appropriations			954,472
Expenses:			
Salaries and fringe benefits		845,015	
Supplies		25,900	
Continuous charges		72,210	
Other		<u>8,580</u>	
Total expenses			<u>951,705</u>
Unexpended balance			<u>\$ 2,767</u>

Secretary of Finance

The Secretary acts on behalf of the Governor in the management and direction of the finance agencies, performing program coordination, policy planning, and budget formulation activities.

The Secretary of Finance receives its funding from General Fund Appropriations. The summary and detailed financial information for fiscal year 2003 is below.

	<u>General Fund</u>	
Original appropriation	\$ 476,485	
Adjustments	<u>52,348</u>	
Final appropriations	528,833	
Net expenses	<u>523,414</u>	
Unexpended balance	<u>\$ 5,419</u>	
Original appropriation per Chapter 899		\$ 476,485
Reductions per Chapter 1042		<u>(34,463)</u>
Appropriations per Chapter 1042		442,022
Adjustments:		
Supplemental appropriation for:		
Unanticipated expenses:		
Operations	95,061	
Mandated changes:		
Bonus funding	6,807	
Health insurance premiums	4,306	
VSDP rate increase	1,621	
Management savings	(1,594)	
Retirement contribution rate reduction	(14,555)	
Group life insurance savings	(2,746)	
Retiree health credit reversions	(1,087)	
VSDP rate reduction	(803)	
Other	<u>(199)</u>	<u>(8,250)</u>
Net supplemental appropriations		<u>86,811</u>
Adjusted appropriations		528,833
Expenses:		
Salaries and fringe benefits	501,054	
Contractual services	4,624	
Continuous charges	14,740	
Other	<u>2,996</u>	
Total expenses		<u>523,414</u>
Unexpended balance		<u>\$ 5,419</u>

Secretary of Public Safety

The Secretary acts on behalf of the Governor in the management and direction of the public safety agencies, providing program coordination, policy planning, and budget formulation activities.

The Secretary of Public Safety receives its funding from General Fund Appropriations. The summary and detailed financial information for fiscal year 2003 is below.

	<u>General Fund</u>	
Original appropriation	\$ 674,264	
Adjustments	<u>(25,182)</u>	
Final appropriations	649,082	
Net expenses	<u>646,510</u>	
Unexpended balance	<u>\$ 2,572</u>	
Original appropriation per Chapter 899		\$ 674,264
Reductions per Chapter 1042		<u>(53,384)</u>
Appropriations per Chapter 1042		620,880
Adjustments:		
Supplemental appropriation for:		
Unanticipated expenses:		
Operations	49,712	
Mandated changes:		
Bonus funding	5,764	
Health insurance premiums	4,774	
VSDP rate increase	2,568	
Management savings	(3,943)	
Retirement contribution rate reduction	(23,057)	
Group life insurance savings	(4,350)	
Retiree health credit reversions	(1,722)	
VSDP rate reduction	(1,271)	
Other	<u>(273)</u>	<u>(21,510)</u>
Net supplemental appropriations		<u>28,202</u>
Adjusted appropriations		649,082
Expenses:		
Salaries and fringe benefits	590,952	
Contractual services	10,785	
Continuous charges	33,509	
Other	<u>11,264</u>	
Total expenses		<u>646,510</u>
Unexpended balance		<u>\$ 2,572</u>

Secretary of Technology

The Secretary serves as the Chief Information Officer of the Commonwealth. Among the primary responsibilities of the Secretary are the direction and coordinated development of a statewide information infrastructure to facilitate efficient operation of government and development of strategies to promote a technologically advanced workforce.

The Secretary of Technology receives its funding from General Fund Appropriations. The summary and detailed financial information for fiscal year 2003 is below.

	<u>General Fund</u>	
Original Appropriation	\$ 496,425	
Adjustments	<u>23,488</u>	
Final Appropriations	519,913	
Net Expenses	<u>519,805</u>	
Unexpended balance	<u>\$ 108</u>	
Original appropriation per Chapter 899		\$ 496,425
Reductions per Chapter 1042		<u>-</u>
Appropriations per Chapter 1042		496,425
Adjustments:		
Supplemental appropriation for:		
Unanticipated expenses:		
Operations	75,585	
Mandated changes:		
Bonus funding	4,138	
Health insurance premiums	3,083	
VSDP rate increase	2,096	
Management savings	(36,504)	
Retirement contribution rate reduction	(18,819)	
Group life insurance savings	(3,551)	
Retiree health credit reversions	(1,405)	
VSDP rate reduction	(1,038)	
Other	<u>(97)</u>	<u>(52,097)</u>
Net supplemental appropriations		<u>23,488</u>
Adjusted appropriations		519,913
Expenses:		
Salaries and fringe benefits	458,497	
Contractual services	36,125	
Continuous charges	21,748	
Other	<u>3,435</u>	
Total expenses		<u>519,805</u>
Unexpended balance		<u>\$ 108</u>

Secretary of Commerce and Trade

The Secretary acts on behalf of the Governor in the management and direction of commerce and trade agencies to perform program coordination, policy planning, and budget formulation activities. The Secretary receives revenues for the Virginia Film Office for promotion of the use of Virginia locations in motion pictures. Beginning in fiscal year 2003, the Secretary deposited the revenue from the Virginia Film Office into the General Fund.

The Secretary of Commerce and Trade receives its funding from General Fund Appropriations and Special Revenues. The summary and detailed financial information for fiscal year 2003 is below.

Analysis of Budgeted and Actual Revenue by Funding Source

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Revenue</u>
General Fund appropriations	\$ 587,974	\$ 510,760	\$ 510,760
VA Film - Special Revenue	-	150,000	187,002
Governor's Opportunity Fund – Dedicated Special Revenue	<u>11,850,000</u>	<u>11,850,000</u>	<u>10,945,994</u>
Total revenues	<u>\$12,437,974</u>	<u>\$12,510,760</u>	<u>\$11,643,756</u>
Original appropriation per Chapter 899			\$ 587,974
Reductions per Chapter 1042			<u>(43,648)</u>
Appropriations per Chapter 1042			544,326
Adjustments:			
Supplemental appropriation for:			
Unanticipated expenses:			
Operations		28,635	
Transfer to Secretary of Education for operations		<u>(45,000)</u>	(16,365)
Mandated changes:			
Bonus funding		6,637	
Health insurance premiums		4,317	
VSDP rate increase		2,168	
Management savings		(4,264)	
Retirement contribution rate reduction		(19,463)	
Group life insurance savings		(3,672)	
Retiree health credit reversions		(1,453)	
VSDP rate reduction		(1,073)	
Other		<u>(398)</u>	<u>(17,201)</u>
Net supplemental appropriations			<u>(33,566)</u>
Adjusted appropriations			510,760
Other resources:			
Unexpended special revenue fund balance as of July 1, 2002		227,536	
Film office revenue		<u>187,002</u>	
Total other resources			<u>414,538</u>
Total appropriations and resources			925,298

Expenses:		
Salaries and fringe benefits	446,368	
Contractual services	22,481	
Transfer payments	50,000	
Continuous charges	137,222	
Other	<u>4,614</u>	
Total expenses		<u>660,685</u>
Unexpended balance		<u>\$ 264,613</u>

The Secretary receives general funds for the Governor's Opportunity Fund. The Opportunity Fund seeks to generate business within the Commonwealth through land development and site preparation. The Department of Business Assistance aids in the review of proposals for funding from the Opportunity Fund and the Secretary makes transfer payments to localities based on approved proposals.

Beginning balance as of July 1, 2002	\$ 20,782,997
Opportunity Fund revenues	945,994
Cash Transfer In	<u>10,000,000</u>
Total Opportunity Fund resources	31,728,991
Expenses:	
Transfer payments	<u>8,025,000</u>
Unexpended balance of Governor's Opportunity Fund as of June 30, 2003	<u>\$ 23,703,991</u>

Secretary of Education

The Secretary acts on behalf of the Governor in the management and direction of educational agencies, performing program coordination, policy planning, and budget formulation activities.

The Secretary of Education receives its funding primarily from General Fund Appropriations. The summary and detailed financial information for fiscal year 2003 is below.

Analysis of Budgeted and Actual Revenue by Funding Source

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Revenue</u>
General Fund appropriations	\$ 597,140	\$ 631,673	\$ 631,673
Special revenue funds	-	3,400	3,400
Total revenues	<u>\$ 597,140</u>	<u>\$ 635,073</u>	<u>\$ 635,073</u>
Original appropriation per Chapter 899			\$ 597,140
Reductions per Chapter 1042			<u>(35,718)</u>
Appropriations per Chapter 1042			561,422
Adjustments:			
Supplemental appropriation for:			
Unanticipated expenses:			
Operations		201,413	
Transfer from Secretary of Commerce and Trade		45,000	
Transfer from Secretary of Natural Resources		<u>30,000</u>	276,413
Mandated changes:			
Bonus funding		11,248	
Health insurance premiums		5,403	
VSDP rate increase		2,277	
Management savings		(193,166)	
Retirement contribution rate reduction		(20,443)	
Group life insurance savings		(3,857)	
Retiree health credit reversions		(1,527)	
VSDP rate reduction		(1,127)	
Other		<u>(1,570)</u>	<u>(202,762)</u>
Net supplemental appropriations			<u>73,651</u>
Adjusted appropriations			635,073
Expenses:			
Salaries and fringe benefits		558,780	
Contractual services		29,012	
Continuous charges		42,477	
Other		<u>4,553</u>	
Total expenses			<u>634,822</u>
Unexpended balance			<u>\$ 251</u>

Secretary of Health and Human Resources

The Secretary acts on behalf of the Governor in the management and direction of health and human resources agencies, providing program coordination, policy planning, and budget formulation activities. The Secretary also receives a transfer of special revenue funds from the Jamestown/Yorktown Foundation to support the Council on Indians. The Secretary's general and special revenue appropriations provide funding for an inspector general and support staff at the Department of Mental Health, Mental Retardation, and Substance Abuse Services. As of July 1, 2003, this funding will transfer to the Department of Mental Health.

The Secretary of Health and Human Resources receives General Fund Appropriations and special revenues. The summary and detailed financial information for fiscal year 2003 is below.

Analysis of Budgeted and Actual Revenue by Funding Source

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Revenue</u>
General Fund appropriations	\$ 800,504	\$ 796,418	\$ 796,418
Special revenue funds	<u>162,469</u>	<u>236,261</u>	<u>179,237</u>
Total revenues	<u>\$ 962,973</u>	<u>\$ 1,032,679</u>	<u>\$ 975,655</u>
Original appropriation per Chapter 899			\$ 800,504
Reductions per Chapter 1042			<u>(65,559)</u>
Appropriations per Chapter 1042			734,945
Adjustments:			
Supplemental appropriation for:			
Unanticipated expenses:			
Operations			81,239
Mandated changes:			
Bonus funding		12,912	
Health insurance premiums		5,479	
VSDP rate increase		2,673	
Management savings		(7,314)	
Retirement contribution rate reduction		(23,999)	
Group life insurance savings		(4,528)	
Retiree health credit reversions		(1,792)	
VSDP rate reduction		(1,323)	
Other		<u>(1,874)</u>	<u>(19,766)</u>
Net supplemental appropriations			<u>61,473</u>
Adjusted appropriations			796,418
Other resources:			
Unexpended special revenue fund balance as of July 1, 2002			97,600
Special revenue cash transfer from Department of Mental Health to fund Inspector General's Office			160,658
Jamestown/Yorktown foundation funding for Council on Indians			<u>18,579</u>
Total other resources			<u>276,837</u>
Total appropriations and resources			1,073,255

Expenses:		
Salaries and fringe benefits	883,963	
Contractual services	65,290	
Continuous charges	39,976	
Other	<u>23,053</u>	
Total expenses		<u>1,012,282</u>
Unexpended balance		<u>\$ 60,973</u>

Secretary of Natural Resources

The Secretary acts on behalf of the Governor in the management and direction of the natural resource agencies, providing program coordination, policy planning, and budget formulation activities. The Secretary of Natural Resources receives its funding from General Fund Appropriations and special revenues. The summary and detailed financial information for fiscal year 2003 is below.

Analysis of Budgeted and Actual Revenue by Funding Source

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Revenue</u>
General Fund appropriations	\$ 514,944	\$ 453,315	\$ 453,315
Special revenue funds	<u>-</u>	<u>-</u>	<u>139,354</u>
Total revenues	<u>\$ 514,944</u>	<u>\$ 453,315</u>	<u>\$ 592,669</u>
Original appropriation per Chapter 899			\$ 514,944
Reductions per Chapter 1042			<u>(29,778)</u>
Appropriations per Chapter 1042			485,166
Adjustments:			
Supplemental appropriation for:			
Unanticipated expenses:			
Operations		11,642	
Transfer to Secretary of Education for operations		<u>(30,000)</u>	(18,358)
Mandated changes:			
Bonus funding		6,542	
Health insurance premiums		2,798	
VSDP rate increase		1,846	
Management savings		(2,484)	
Retirement contribution rate reduction		(16,574)	
Group life insurance savings		(3,127)	
Retiree health credit reversions		(1,238)	
VSDP rate reduction		(914)	
Other		<u>(342)</u>	<u>(13,493)</u>
Net supplemental appropriations			<u>(31,851)</u>
Adjusted appropriations			453,315
Expenses:			
Salaries and fringe benefits		397,510	
Contractual services		12,842	
Transfer payments		16,928	
Continuous charges		22,739	
Other		<u>2,073</u>	
Total expenses			<u>452,092</u>
Unexpended balance			<u>\$ 1,223</u>

The Secretary receives special revenue funds for the Chesapeake Bay Clean-Up Program. Individual taxpayers donate money by designating on their tax returns their donation to the program. The Department of Taxation collects the donations with the tax returns and transfers the money to the Secretary.

Unexpended special revenue fund balance as of July 1, 2002	\$ 188,286
Chesapeake Bay Clean-Up special revenues	<u>139,354</u>
Total appropriations and resources	<u>\$ 327,640</u>

Secretary of Transportation

The Secretary acts on behalf of the Governor in the management and direction of the transportation agencies, providing program coordination, policy planning, and budget formulation activities. The Secretary receives all operating funds directly from the Transportation Trust Funds. At year-end, the Virginia Department of Transportation transfers Transportation Trust Funds equal to the Secretary's expenses.

Original appropriation per Chapter 899		\$ 487,045
Reductions per Chapter 1042		<u>-</u>
Appropriations per Chapter 1042		487,045
Supplemental appropriation for operations		<u>38,693</u>
Adjusted appropriations		<u>\$ 525,738</u>
Available resources:		
Transfers from Transportation Trust Fund		\$ 523,291
Expenses:		
Salaries and fringe benefits	468,285	
Contractual services	31,730	
Continuous charges	20,878	
Other	<u>2,398</u>	
Total expenses		<u>523,291</u>
Unexpended balance		<u>\$ -</u>

August 26, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Secretaries' internal controls, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Secretaries' operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures	Appropriations
Revenues	Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Secretaries' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Secretaries' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

The Division of Selected Agency Support Services within the Office of the Secretary of Administration provides financial and administrative support to the Governor's Cabinet Secretaries. We found that the Division properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Division records the Secretaries' financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management on September 24, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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GOVERNOR'S CABINET SECRETARIES
Richmond, Virginia

As of June 30, 2003

Sandra D. Bowen
Secretary of Administration

Michael J. Schewel
Secretary of Commerce and Trade

Belle S. Wheelan
Secretary of Education

John M. Bennett
Secretary of Finance

Jane H. Woods
Secretary of Health and Human Resources

W. Tayloe Murphy, Jr.
Secretary of Natural Resources

John W. Marshall
Secretary of Public Safety

George Newstrom
Secretary of Technology

Whittington W. Clement
Secretary of Transportation

Division of Selected Agency Support Services

Dennis Johnson, Director